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FM AMEMBASSY BEIJING  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 0723  
INFO RUEHOO/CHINA POSTS COLLECTIVE IMMEDIATE  
RUEATRS/DEPT OF TREASURY WASHINGTON DC IMMEDIATE  
RUEAIIA/CIA WASHINGTON DC IMMEDIATE

UNCLAS BEIJING 004121

SIPDIS

E.O. 12958: N/A

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SUBJECT: ASEAN+3 NATIONS MAKING LITTLE PROGRESS ON CURRENCY  
SWAP ARRANGEMENTS

¶1. (U) Summary. Despite public announcements at the ASEM Summit of an \$80 billion swap arrangement, ASEAN 3 nations were still discussing the multilateralization of currency swaps as part of the Chiang Mai initiative, and important elements are still unresolved. There is still no consensus on key elements on how to multilateralize the arrangement, including whether members should contribute funds into a pool or whether the multilateral arrangement would simply coordinate bilateral loans and whether claims from a pool would take precedence over bilateral claims. China and Japan currently are extending bilateral currency swaps with South Korea of about \$4 billion each, but a People's Bank of China official characterized these as primarily symbolic gestures. The official was also surprised to hear that the US Federal Reserve had announced it would extend currency swaps of up to \$30 billion to South Korea and several other countries, commenting that it appeared that the Fed was now playing the role of the central bank of the world. End Summary.

¶2. (U) People's Bank of China International Department Deputy Director General Jin Zhongxia on October 30 told Finance MinCoun and econoff that, despite public announcements at the ASEM Summit of an \$80 billion swap arrangement, ASEAN 3 nations were still discussing the multilateralization of currency swaps as part of the Chiang Mai initiative, and important elements are still unresolved. (Note. The Chiang Mai initiative was created in 2000 to establish a network of bilateral currency swap agreements among ASEAN 3 nations. Since 2007, discussions have focused on the "multilateralization" of bilateral currency swaps whereby resources would be pooled rather than lent solely on a bilateral basis. End note.) Jin noted that at the May 2008 ASEAN 3 finance ministers meeting, participants agreed that a multilateral currency swap fund would be capped at \$85 billion, with the "plus 3" contributing 80% of the funds and the ten ASEAN countries contributing the remaining 20%.

¶3. (U) According to Jin, there is still no consensus on key elements on how to multilateralize the arrangement such as: 1) setting up a surveillance body; 2) participation of the Hong Kong monetary authority; 3) whether members should contribute funds into a pool when needed to on-lend to another member or whether the multilateral arrangement would simply coordinate bilateral loans; and 4) if loans were made from a pool, whether the pool's claim would take precedence to bilateral claims. Jin made clear that members would only provide funds on a contingent basis, rather than contribute official reserves into a standing fund. Jin noted broad consensus to continue the policy that only 20% of the funds each member is eligible to draw could be drawn on without an IMF program. However, he noted that under the existing Chiang Mai Arrangement, members should now be able to draw all of the funds from bilateral swaps if they draw on the IMF's new Short-Term Liquidity Facility.

¶4. (U) When asked if ASEAN 3 members are considering extending finance through the bilateral swaps before agreement on a multilateralization of the Chiang Mai

Arrangement to mitigate financial stress, Jin noted that China's and Japan's bilateral currency swaps with South Korea are both only around \$4 billion, which Jin characterized as primarily symbolic gestures and too small to have a meaningful impact on financial market sentiment.

15. (U) Jin was surprised when informed that the US Federal Reserve had announced it would extend currency swaps of up to \$30 billion to South Korea and Singapore (along with Brazil and Mexico). Jin said they represented a significant shift away from the Fed's traditional focus on US domestic conditions and it was now playing the role of the central bank of the world. He said PBOC is interested in learning more about the tenor, terms, and conditionality of the Fed's swaps and wondered whether the Fed was now "competing" with the IMF to provide balance of payments support.

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